

1. This change is to rescind Change 33 to the Lender's Handbook.
2. VA Pamphlet 26-7, "VA Lender's Handbook," is being changed as follows:

Page G-i: Remove this page and insert page G-i attached.

Pages G-1 through G-2a: Remove these pages and insert pages G1 and G2 attached.

Pages G-5 and G-6: Remove these pages and insert pages G-5 and G-6 attached.

Page 3-i: Remove this page and insert page 3-i attached.

Pages 3-5 through 3-8a: Remove these pages and insert pages 3-5 through 3-8a attached.

Pages 4-1 through 4-2a: Remove these pages and insert pages 4-1 through 4-2a attached.

Pages 4-5 and 4-6: Remove these pages and insert pages 4-5 and 4-6 attached.

Pages 4-11 through 4-14a: Remove these pages and insert pages 4-11 through 4-14 attached.

Pages 5-15 through 5-18: Remove these pages and insert pages 5-15 through 5-18 attached.

3. **Rescission:** Change 33, VA Pamphlet 26-7.

By Direction of the Under Secretary for Benefits

Keith Pedigo
Director, Loan Guaranty Service

Distribution: Per VA Forms 3-7225 and 3-7225a

November 25, 1997

VA Pamphlet 26-7
Change 35

CONTENTS

GENERAL INFORMATION

<u>PARAGRAPH</u>	<u>PAGE</u>
1.1 Electronic Publication of Lender's Handbook	G-1
1.2 Misleading Advertisements	G-1
1.3 Home Mortgage Disclosure Act (HMDA)	[G-2]
1.4 IRRRL Quick Reference	G-5
1.5 VA Restructuring (Loan Processing)	G-6
1.6 VA Restructuring (Eligibility)	G-7
1.7 Automated Underwriting - Loan Prospector	G-13
1.8 Use of Automatic Authority	G-13

GENERAL INFORMATION

1.1. Electronic Publication of Lender's Handbook

a. VA Pamphlet 26-7, VA Lender's Handbook, along with H26-94-1, VA Servicing Guide, are now available electronically on the Internet. Changes to the handbook will be available on the Internet when signed, which will often be before they are printed and mailed. Lenders are strongly encouraged to begin accessing the lender's handbook electronically.

b. Excerpts from certain Loan Guaranty circulars beginning in 1996 are also available electronically. Circulars contain information about changes to VA policies and/or procedures and information that regional offices are required to release to lenders and/or servicers in their area.. Circulars which only discuss internal VA procedures are not included.

c. The Internet address is: <http://www.va.gov/vas/loan/lenders.htm>

d. In addition, there is at least one commercial service distributing VA documents electronically. The Mortgage Resource Center (800-848-4904) offers them on diskettes for those without access to the Internet as well as over the Internet (<http://www.allregs.com>). They will also notify lenders by electronic mail when lender's handbook changes or circulars are issued.

1.2. Misleading Advertisement

a. The Department of Veterans Affairs always strives to provide all veterans the most up-to-date and pertinent information about their benefits. Toward that end, all appropriate efforts by lenders to further educate or remind veterans about their home loan benefit and the lender's availability to assist the veteran in obtaining the benefit is appreciated. However, it is inappropriate to direct any information about benefits to veterans which is in any way misleading.

b. In increasing numbers, VA has been receiving inquiries and complaints from veterans concerning advertisements and solicitations they have received from lenders which state that VA has a **NEW** program to refinance their VA loan and lower their interest rate. In fact, the IRRRL (Interest Rate Reduction Refinancing Loan) program has been available to veterans since the enactment of The Veterans' Disability Compensation and Housing Benefits Amendments of 1980 (Public Law 96-385). In addition, many of these solicitations suggest that the lender has some special relationship with VA which enables only them to offer this loan opportunity. Some even clearly attempt to give the impression that the "letter" the veteran received came from VA.

[c.] It must be clearly understood that VA has a very specific mission to serve veterans, who are declared by Congress to be a "special class of citizen," and veterans rely on VA to provide dependable service and reliable information concerning their benefits. Any action on the part of lenders or other program participants which jeopardizes VA's credibility with veterans or induces veterans to obtain loans which are clearly not in their best interests would be viewed by VA as actions which are detrimental to the best interests of veterans. If such a determination is made, grounds for suspension from participation in the VA Loan Guaranty Program could be established.

[d.] VA encourages all lenders to continue participating in offering VA financing to all eligible and qualified veterans, and it is recognized that mortgage lending is a competitive industry; but VA insists that lenders refrain from any and all practices which might mislead veterans into actions which are contrary to their own best interests. If your firm has been engaging in such advertising, or is considering doing so, VA strongly recommends that anything in your promotional material which is in any way inaccurate or misleading be deleted. If there is uncertainty about the accuracy or propriety of the advertisement or solicitation, please consult with the local VA regional office or the Loan Policy staff at VA Central Office at (202) 273-7368.

1.3. Home Mortgage Disclosure Act (HMDA)

a. As a result of releases of Home Mortgage Disclosure Act (HMDA) data, many lenders are increasingly concerned that they are taking all appropriate measures to assure access by minorities and lower income households to home mortgage loans. VA believes that it is important for lenders to be aware of how effectively the Home Loan Program can assist them in meeting this goal.

b. The no downpayment feature is, of course, a primary advantage for individuals with low-to-moderate incomes. However, lenders should not overlook other aspects of the VA program that will help in underwriting loans for such applicants. The "VA Credit Standards" are written as guidelines and are meant to be interpreted and used just that way, taking into consideration all of an individual loan applicant's financial, employment and family circumstances. The following paragraphs provide guidance on areas of underwriting that may be of particular concern when processing applications for low-to-moderate income borrowers. Many of the concepts are discussed in chapter 5, part II, "Credit Standards" but are repeated here to emphasize their importance and applicability to underwriting loans to minority and low-to-moderate income applicants.

1.4. IRRRL Quick Reference

a. The following is provided to address and clarify certain issues which have come up from time to time concerning IRRRLs (Interest Rate Reduction Refinancing Loans).

(1) An IRRRL can be done only when the veteran already has his or her entitlement used for a VA loan on the property to be refinanced. In other words, it must be a VA to VA refinance reusing the veteran-applicant's entitlement.

(2) The occupancy requirement for an IRRRL is different from the occupancy requirement for other VA loans. The veteran, INCLUDING THE ACTIVE-DUTY SERVICE MEMBER WHO MAY BE STATIONED ELSEWHERE, is able to satisfy the occupancy requirement by certifying to prior occupancy. (See par. 3.16.)

(3) The loan may not exceed the sum of the outstanding balance on the existing VA loan and allowable fees and closing costs, including not more than two discount points and funding fee.

(4) No appraisal and no credit underwriting package are necessary, even in the instance of a recent bankruptcy. Although no underwriting is required, approval of new credit may be required by the trustee in a Chapter 13 bankruptcy.

(5) A "no money out of pocket" rate reduction refinance may be done by including all costs in the new loan or by setting the interest rate on the new loan high enough to enable the lender to pay all loan closing costs. (Remember, except when refinancing an adjustable rate mortgage to a fixed-rate mortgage, the rate on the new loan must be lower than the loan being refinanced.)

(6) No lien other than the existing VA loan may be paid from the proceeds of the IRRRL. It may be necessary that the holder of a second lien agree to subordinate that lien.

(7) The guaranty on an IRRRL will always be at least 25 percent.

(8) Any lender, including those without authority to process other VA loans on the automatic basis, may process IRRRLs on the automatic basis as long as the existing loan is [not in default].

(9) If the existing loan [has three or more payments past due], the IRRRL must be submitted as a prior approval. [If it is delinquent, but has less than three payments past due, the loan should be closed on the automatic basis.]

b. See paragraphs 3.13, 3.14, 4.08, and 5.11 for further processing instructions.

1.5 VA Restructuring (Loan Processing)

a. As a part of the Federal Government's effort to downsize and achieve greater overall efficiency, VA has started consolidating the Loan Processing activities of the Loan Guaranty Program into eight RLCs (Regional Loan Centers). We believe that this restructuring will enable VA to improve the quality of service we provide to veterans, lenders and other program participants. These eight RLCs are located at existing VA Regional Offices which will continue to have jurisdiction over all VA home loan activities within their existing areas of jurisdiction, in addition to acquiring the Loan Processing and Loan Service and Claims responsibilities for additional areas. This process, which has already begun, will be phased in over the next 2 to 3 years. As this consolidation proceeds, the RLCs will provide lenders specific notice as to when the Loan Processing function of a particular Regional Office is to be absorbed by the RLC. Exhibit G-1 provides a complete description of the planned consolidation.

b. Historically, the primary responsibilities of Loan Processing have been to issue commitments for prior approval loans, issue the Loan Guaranty Certificate for closed loans, and to determine the eligibility and available loan guaranty entitlement for veterans. It has not been determined if "eligibility" will ultimately remain a part of the Loan Processing activity. As RLCs give lenders notice of consolidation schedules, they will also provide information concerning the processing of eligibility requests. While we expect that all Regional Offices will retain the ability to service walk-in eligibility requests for veterans, we anticipate that mail-in requests will eventually be either processed at the eight RLCs or consolidated to as few as one national eligibility processing center. When it is decided which configuration will best serve our customers, all lenders will be notified.

c. After the Loan Processing activity at a particular Regional Office has been transferred to an RLC, lenders will continue to obtain case numbers and appraisal assignments from the same VA Regional Office that now has jurisdiction over the geographic area in which the property is located. However, when loan documents are ready for submission to VA, either for prior approval or to obtain a Loan Guaranty Certificate, the loan package will be submitted to the appropriate RLC. In order to assure the most efficient and timely processing of the cases by VA, lenders will be required to include a copy of the appraisal report and the CRV (Certificate of Reasonable Value) or MCRV (Master Certificate of Reasonable Value) issued by the VA Regional Office or the NOV (Notice of Value) issued by the lender if it is a LAPP case.

CONTENTS

CHAPTER 3. THE LOAN

<u>PARAGRAPH</u>	<u>PAGE</u>
3.01 Home Loans	3-1
3.02 Construction/Permanent Home Loans	3-2
3.03 Farm Residence Loans	3-3
3.04 Cooperative Home Loans	3-3
3.05 Joint Home Loans	3-4
3.06 Household Equipment and Appliances	3-5
3.07 Purchase of Unimproved Land	3-5
3.08 Combination Residential and Business Property	3-5
3.09 Land Sale Contracts	3-5
3.10 Alteration and Repair	[3-6]
3.11 Supplemental Loans	[3-6]
3.12 Refinancing Mortgage or Other Lien Indebtedness ("Cash-Out" Refinancing)	3-6
3.13 Refinancing of Outstanding VA-Guaranteed Loans - Interest Rate Reduction Refinancing Loans (IRRRL)	[3-7]
3.14 Comparison of VA Refinancing Loans	[3-7]
3.15 Geographical Limits	3-8
3.16 Occupancy	3-8
3.17 Energy Efficient Mortgages (EEMs)	3-10
3.18 Manufactured Home Financing Under 38 U.S.C. 3710	3-13
3.19 Seller Concessions	3-13

3.06 HOUSEHOLD EQUIPMENT AND APPLIANCES

a. Equipment and appliances, such as air-conditioning, refrigerating, cooking, washing, or garbage disposal equipment may be purchased with the proceeds of a VA loan if their cost, quality, type, nature, purpose, and need is appropriate to the home. If the equipment and appliances are not real estate fixtures under local law (i.e., the lien on the appliances and equipment is in the form of a chattel mortgage), the entire loan may be treated as a real estate loan. The method by which an effective lien is obtained is the lender's responsibility.

b. Loans for the separate purchase of household equipment and appliances are not subject to guaranty, even though the equipment and appliances are later considered fixtures.

3.07 PURCHASE OF UNIMPROVED LAND

Unimproved land purchased with the proceeds of a construction loan is considered eligible for guaranty if the land will be improved by the construction loan. A loan for purchase of unimproved real estate with the intent to improve it at some future date is not eligible for guaranty. However, the balance owing on a deferred purchase money mortgage or a contract for the purchase of unimproved real property is eligible for refinancing in connection with an eligible loan for new construction, subject to reasonable value requirements. Any amount owing on the mortgage or contract may be paid from the proceeds of the construction loan.

3.08 COMBINATION RESIDENTIAL AND BUSINESS PROPERTY

A loan for the purchase or construction of a combined residential and business property may be classified as a home loan under 38 U.S.C. 3710 provided the property is primarily for residential purposes and there is not more than one business unit. The nonresidential area may not exceed 25 percent of the total floor area.

3.09 LAND SALE CONTRACTS

An eligible veteran's obligation for installments payable on a land sale contract for purchase of improved residential real property may be guaranteed in the same manner as any obligation secured by a mortgage or deed of trust. Any land sale contract obligation guaranteed must be recorded. A loan to refinance the unpaid balance under a land sale contract for the purchase of improved residential real property is also subject to guaranty, provided the veteran will obtain title to the property described in the contract upon closing the loan and the obligation to be guaranteed is in the form of a note or bond secured by a mortgage or other acceptable form of security instrument other than the existing land sale contract. Although option contracts are not eligible for guaranty, a loan made for the unpaid purchase price of residential real property when the option is exercised is subject to guaranty.

3.10 ALTERATION AND REPAIR

If any of the proceeds of a loan for the purchase of improved real property will be used for alteration or repair of structures, the cost of such alterations or repairs generally may be included in the loan to the extent that their value supports the loan amount.

3.11 SUPPLEMENTAL LOANS

a. The term "supplemental loans" refers to loans for alteration, improvement or repair of a residence owned and occupied by the veteran-applicant and subject to a lien securing a loan guaranteed for such applicant under 38 U.S.C. 3710. This does not apply to advances made pursuant to 38 CFR 36.43l3. Nothing in the rules pertaining to supplemental loans precludes a lender from making a junior loan without the benefit of VA guaranty, subordinate to the rights of VA under the outstanding guaranteed loan, or a guaranteed loan (unsecured or secured by a second lien) to an eligible veteran for repair, alteration or improvement of a home secured by a first mortgage loan on which the applicant has not used entitlement, provided the lien requirements of 38 CFR 36.4351 are met.

b. A supplemental loan generally requires prior approval of VA, therefore, lenders considering such a loan should obtain information from the VA regional office.

3.12 REFINANCING MORTGAGE OR OTHER LIEN INDEBTEDNESS ("CASH-OUT" REFINANCING)

a. Refinancing loans may be processed on a prior approval or automatic basis. The veteran must have loan guaranty entitlement available. This includes any entitlement used on an existing VA loan which is restorable for a VA refinancing loan secured by the same property. See chapter 4, paragraph 4.07 for requirements for regular "cash-out" refinancing loans under 38 U.S.C. 3710(a)(5).

b. Automatic loan reports for regular "cash-out" refinancing loans must include all exhibits required for other types of loans (par. 4.04b), plus a statement signed by the veteran showing the cash proceeds to the veteran and itemizing debts paid from loan proceeds (with an identification of those secured by liens of record), and a copy of the discount commitment negotiated with the lender, if any.

3.13 REFINANCING OF OUTSTANDING VA-GUARANTEED LOANS -
INTEREST RATE REDUCTION REFINANCING LOANS (IRRRL)

a. Veterans may refinance VA-guaranteed loans at a lesser rate of interest without use of additional loan entitlement under section 3710(a)(8) of title 38, U.S. Code. [] When refinancing from an adjustable rate mortgage (ARM) to a fixed rate mortgage, the new interest rate may be freely negotiated and may, in fact, be higher than the rate on the ARM being refinanced. IRRRLs may be processed under the automatic procedure by any lender authorized to make VA loans unless the loan is [in default; i.e., there are 3 or more payments due on the loan to be refinanced].

b. See paragraphs 4.04c and 4.08 for a list of required exhibits and a more detailed discussion of interest rate reduction refinancing loans.

3.14 COMPARISON OF VA REFINANCING LOANS

The following comparison chart outlines the features of VA interest rate reduction refinancing and regular "cash-out" refinancing. A veteran with an existing VA loan may obtain either type of refinancing loan but lenders must exercise care in adhering to the provisions and procedures applicable to the particular refinancing loan. Specific instructions for processing refinancing loans are in paragraphs 4.07 and 4.08.

	<u>Cash-Out</u>	<u>Rate Reduction</u>
a. Statutory authority	38 U.S.C. 3710(a)(5)	38 U.S.C. 3710(a)(8)
b. Guaranty entitlement required	Yes	No
c. Cash to veteran	Yes	No
d. Loan limit	90 percent of CRV plus funding fee (See par 4.07b for exceptions)	VA loan balance plus allowable closing costs and funding fee plus up to \$6,000 for energy efficient improvements
e. Must veteran own property	Yes	Yes
f. Must veteran occupy property	Yes	No (must have once occupied)

	<u>Cash-Out</u>	<u>Rate Reduction</u>
g. Maximum loan term	30 years + 32 days	Existing VA loan term plus 10 years not to exceed 30 years and 32 days
h. Maximum interest rate	Negotiated rate	Rate must be lower than rate on present VA loan unless refinancing ARM to fixed rate
i. Lien of record required	Yes	Yes
j. OK to refinance other liens	Yes	No
k. Appraisal required	Yes	No
l. Credit package required	Yes	[No]
m. OK for automatic processing	Yes, automatic lenders	Yes, all lenders [unless existing VA loan is delinquent]

3.15 GEOGRAPHICAL LIMITS

Real property, to secure a VA guaranteed loan, must be located in the United States, its territories, or possessions (Puerto Rico, Guam, Virgin Islands, and American Samoa).

3.16 OCCUPANCY

a. Section 3704(c), title 38, U. S. Code, requires that the veteran-recipient of a guaranteed loan certify that he or she intends to personally occupy the property as his or her home. This requirement states "... that the veteran as of the date of the veteran's certification actually lives in the property personally as the veteran's residence or actually intends upon completion of the loan and acquisition of the dwelling unit to move into the property personally within a reasonable time and to utilize such property as the veteran's residence." In most cases, "reasonable time" means within 60 days after the loan closing. Occupancy within a longer period following the date of closing may be considered reasonable if both of the following conditions are met:

(1) The veteran certifies that he or she will personally occupy the property as his or her residence at a certain specific date after the date of loan closing; and

(2) There is a particular future event that will make it possible for the veteran to personally occupy the property as his or her home on the specific future date.

In the case of an active duty service member, occupancy by the spouse is acceptable with the certification in subparagraph c below. Occupancy at a date beyond 12 months after loan closing cannot generally be considered reasonable by VA.

b. "As the veteran's home" means that the property to be secured by the VA loan is the primary residence of the veteran, is or will be occupied by the veteran, and is within reasonable proximity to the veteran's place of employment. If the veteran's employment requires his or her absence from home a substantial amount of time, the occupancy requirement may be satisfied if the veteran has a history of continuous residence in the community and there is no indication that the veteran has established, intends to establish, or may be required to establish a principal residence elsewhere.

c. Active duty military personnel may meet the occupancy requirement, even if assigned to an overseas or other remote duty station, provided the spouse completes the following certification:

"My spouse is on active duty and in his or her absence I occupy or intend to occupy the property securing this loan as my home."

spouse's signature)

CHAPTER 4. LOAN PROCEDURES

4.01 DOCUMENTS EXECUTED BY BRANCH MANAGERS AND OTHERS

Branch managers, employees, and agents, of the lender or holder may execute VA forms in the name of and on behalf of the principals.

4.02 STEPS IN LOAN PROCESSING

a. Determination of the veteran's entitlement and the reasonable value (appraisal) of the property may be initiated simultaneously or separately by the lender. Either or both processes may be started before other actions in connection with the loan. A veteran may at any time submit a request to VA for a determination of eligibility for loan guaranty benefits on VA Form 26-1880, Request for Determination of Eligibility and Available Loan Entitlement, together with his or her discharge or separation papers, to obtain a certificate of eligibility that shows the amount of entitlement available. Similarly, the veteran, lender, or seller may at any time request VA to appraise a property and issue a CRV, VA Form 26-1843, Certificate of Reasonable Value or MCRV, VA Form 26-1843a, Master Certificate of Reasonable Value. Because the amount of a VA loan, Energy Efficient Mortgages excepted, may not exceed the reasonable value of the property that will secure the VA loan, authorized lenders processing loans under the automatic procedure, and when authorized, Lender Appraisal Processing Program (LAPP) need to know the reasonable value of the property prior to making the loan. Consequently, a loan to be processed under the automatic procedure requires a CRV, MCRV, or LAPP NOV prior to closing and reporting the loan to VA for guaranty.

b. Use of Uniform Residential Loan Application and HUD/VA Addendum. The URLA (Uniform Residential Loan Application) and VA Form 26-1802a, HUD/VA Addendum to Uniform Residential Loan Application, are required for all VA loans except interest rate reduction refinancing loans. The completed URLA and addendum are considered acceptable if signed and dated anytime from the date of initial application to the date of loan closing. For prior approval loans, the signed forms must be part of the submission to VA for commitment. (See par. 5.15 for guidance regarding debts which are not divulged on the application.) The URLA and addendum should bear the date they were actually signed but need not be signed on the same date since some items on the addendum usually cannot be certified at the initial interview. VA does not require that the URLA and addendum be typed provided they are properly completed and legible.

4.03 PRIOR-APPROVAL LOANS

a. Requirements. Lenders who are not supervised and have not been approved for automatic processing authority must submit loans to VA for prior approval before the loan is closed. The following loan types must be submitted for VA's prior approval, regardless of automatic authority: joint loans, supplemental loans, loans to veterans receiving VA nonservice-connected pension, loans to veterans rated incompetent by VA, and interest rate reduction refinancing loans in which the [veteran is three or more payments in arrears.]

b. Application Procedure. The following loan documentation, in sequence, must be submitted under the prior-approval procedure:

- (1) Lender's cover letter (if used);
- (2) VA Form 26-8320, Certificate of Eligibility (if unavailable, provide VA Form 26-1880, Request for Determination of Eligibility and Available Loan Guaranty Entitlement, with supporting evidence of service);
- (3) URLA (Uniform Residential Loan Application) with revised VA Form 26-1802a, HUD/VA Addendum to Uniform Residential Loan Application;
- (4) Interest Rate and Discount Disclosure Statement;
- (5) VA Form 26-0592, Counseling Checklist for Military Homebuyers (if applicable);
- (6) VA Form 26-8923, Interest Rate Reduction Refinancing Loan Worksheet (if applicable);
- (7) VA Form 26-8937, Verification of VA Benefit-Related Indebtedness;
- (8) VA Form 26-6393, Loan Analysis;
- (9) Original credit report on veteran-applicant and spouse or other joinder (if applicable), and any related documents (e.g., proof of debt payment, explanations, etc.);
- (10) VA Form 26-8497a, Request for Verification of Deposit, and other related documents (Alternative: Original or certified true copies of the last two bank statements.);
- (11) VA Form 26-8497, Request for Verification of Employment (or equivalent), and other verifications of income (e.g., pay stubs, tax returns, see par. 5.12);
- (12) Purchase/earnest money contract;

(13) VA Form 26-1843, Certificate of Reasonable Value; or

(14) VA Form 26-1843a, Master Certificate of Reasonable Value, if applicable, with any applicable endorsements and/or change orders (VA Forms 26-6363 and/or 26-1844 or VA computer generated form). (Highlight to show lot and block identification, house type valuation, and optional equipment applicable to veteran's purchase.); or

(15) LAPP documentation (see par. 21.19) and

(16) The original Freddie Mac Form 70/Fannie Mae Form 1004, Uniform Residential Appraisal Report (URAR), including all addendums, photographs and any document(s) revising or correcting the fee appraiser's original (URAR). (NOTE: The URAR etc., is **NOT** required when VA Form 26-1843a, MCRV, is submitted); and

(17) Any other necessary documents.

(18) VA Form 26-8497, Request for Verification of Employment (or equivalent), and other verifications of income (e.g., pay stubs, tax returns, see par. 5.12);

(19) VA Form 26-8497a, Request for Verification of Deposit, and other related documents (Alternative: Original or certified true copies of last two bank statements.);

(20) Purchase/earnest money contracts;

(21) VA Form 26-1843, Certificate of Reasonable Value; or

(22) VA Form 26-1843a, Master Certificate of Reasonable Value (MCRV), with applicable endorsements and/or change orders (VA Forms 26-6363 and/or 26-1844 or VA computer-generated form). Highlight to show lot and block identification, house type valuation and optional equipment applicable to veteran's purchase; or

(23) LAPP Notice of Value (NOV) and any special requirements or conditions applicable to the property.

(24) The original Freddie Mac Form 70/Fannie Mae Form 1004, Uniform Residential Appraisal Report (URAR) including all addendums, photographs and any document(s) revising or correcting the fee appraiser's original URAR. (NOTE: The URAR and attending information is **NOT** required when VA Form 26-1843a, MCRV, is submitted.

(25) Any remaining pertinent documents;

c. (IRRRLs) Interest Rate Reduction Refinancing Loans. These loans may be closed on the automatic basis by any VA lender, provided the loan is not in default. A loan [on which 3 or more payments are due may not be processed on the automatic basis.] Such loans must be submitted to VA on the prior approval basis. The loan report for IRRRLs closed on the automatic basis require the following exhibits:

(1) Lender's cover or transmittal letter (if used);

(2) VA Form 26-0285, VA Transmittal List (fig. 4.01);

(3) VA Form 26-0286, VA Loan Summary Sheet (figs. 4.02 and 4.03);

(4) VA Form 26-8320 (or 26-8320a), Certificate of Eligibility, or a request for a duplicate certificate on VA Form 26-1880, Request For Determination Of Eligibility And Available Loan Guaranty Entitlement;

(5) VA Form 26-8998, Acknowledgment of Receipt of Funding Fee from Mortgagee, or (if applicable) VA Form 26-0500, Notification to Mortgagee of Funding Fee Shortage and VA Form 26-8999, Acknowledgment of Receipt of Funding Fee Shortage to Mortgagee, or evidence borrower is exempt (see par. 6.07 regarding exemptions);

(6) Statement signed by the veteran acknowledging the effect of the refinancing loan on the veteran's loan payments and interest rate. (The statement must show the interest rate and monthly payments for the new loan versus that for the old loan. If applicable, the veteran's statement may be combined with the lender's certification that the veteran qualifies for the new monthly payment which exceeds the previous payment by 20 percent or more.);

(7) VA Form 26-8923, Interest Rate Reduction Refinancing Loan Worksheet;

(8) VA Form 26-1820, Report and Certification of Loan Disbursement;

(9) VA Form 26-8937, Verification of VA Benefit-Related Indebtedness;

(10) HUD-1, Settlement Statement;

(11) VA Form 26-0503, Federal Collection Policy Notice;

[(12)] Documentation of the cost of energy efficient improvements included in the loan. Such improvements must have been completed no more than 90 days prior to the date of the loan.

[(13)] Any other pertinent documents.

d. Effect of Guaranty. For loans closed on the automatic basis, the guaranty becomes effective upon compliance with the law and applicable regulations and without issuance of evidence of guaranty. However, VA may at any time, with 30 days notice, require that loans made by any lender or class of lenders be submitted for prior approval. In these instances, no guaranty liability shall exist unless evidence of guaranty is issued by

amount in these cases is the lesser of the VA reasonable value of the property or the sum of the outstanding loan balance plus allowable closing costs and discounts.

c. Lien and Title Requirements. To be eligible for guaranty, a refinancing loan must be secured by a first lien on the dwelling or farm residence owned and occupied by the veteran as a home. The title requirements in 38 CFR 36.4350 are also applicable.

d. Automatic Processing. Refinancing loans may be processed on the automatic basis by authorized lenders and must be reported on VA Form 26-1820. Loan reports for regular refinancing loans must include all exhibits required for other types of loans, plus a statement signed by the veteran showing the cash proceeds paid, an itemization of the debts paid from loan proceeds, an identification of those debts secured by liens of record, and a copy of the discount commitment negotiated with the lender, if any.

e. Purpose of Cash Proceeds. A loan may be made to refinance the sum due the holder of an existing mortgage loan or other lien indebtedness, or to refinance an existing mortgage loan or other lien indebtedness and to provide the veteran with funds for an acceptable purpose. It is the lender's discretion to determine whether a refinancing loan will include cash funds desired by the veteran (subject to the maximum of 90 percent of the reasonable value).

f. Discounts. The amount of discount to be paid by the veteran must be reasonable. An increase in the discount payable by the veteran subsequent to either VA's commitment or the lender's automatic approval is permitted under certain circumstances (See par. 5.03c(3)). An increase in the discount may mean that debts cannot be paid as intended. For prior-approval loans, this is a change in the loan terms upon which VA's commitment was issued, and VA approval of the change is required prior to loan closing. For automatic loans, it is the lender's responsibility to assure that the loan continues to meet VA credit standards.

g. Installment Land Sale Contract. A loan to refinance the balance owed on a land sale or installment contract is eligible for refinancing under 38 U.S.C. 3710(a)(5) to the same extent as a debt secured by a mortgage or deed of trust.

4.08 REFINANCING OF OUTSTANDING VA-GUARANTEED LOANS INTEREST RATE REDUCTION REFINANCING LOANS)

a. General Provisions. The provisions of sections 3710(a)(8) and 3712(a)(1)(F) of title 38, U.S.C. permit a veteran who obtained a VA loan to refinance it with a VA-guaranteed loan at a lesser rate of interest without use of additional loan entitlement. The basic provisions of this program are:

(1) The dollar amount of guaranty applicable to the prior VA loan is essentially transferred to the new loan. However, transfer of guaranty is subject to the guaranty percentage limits imposed by sections 3703(a)(1)(A) and 3710(e)(1)(D) of title 38, U.S.C. (see subpar. c(2) below). The minimum guaranty on a refinancing loan under this section is 25 percent regardless of the dollar amount of guaranty entitlement being transferred from the prior loan. An increase in maximum guaranty entitlement authorized by law since the prior VA loan was guaranteed is not applicable to the refinancing loan. There is no additional charge to the veteran's remaining loan entitlement, if any;

(2) The refinancing loan must be secured by the same home that secured the loan to be refinanced;

(3) The veteran must own the property securing the loan to be refinanced;

(4) No property appraisal or credit underwriting is required by VA in connection with such loans;

(5) The new loan must be at a lesser rate of interest than the old VA loan except when refinancing an existing adjustable rate mortgage with a new fixed rate mortgage (see par. 5.09b for instructions for refinancing with an adjustable rate mortgage);

[(6)] The veteran may not obtain cash proceeds. No portion of the loan proceeds may be used to pay off debts, including second mortgages or other lien indebtedness. The only exception to these prohibitions is that up to \$6,000 may be used to reimburse the veteran for the cost of energy efficient improvements completed within the 90 days immediately preceding the date of the loan or to pay for the cost of such improvements. The new loan is limited to a maximum of the balance of the old loan plus up to \$6,000 of the cost of energy efficient improvements and allowable closing costs. If necessary, the refinancing loan amount must be rounded down to avoid payment of cash to the veteran;

[(7)] The term of the interest rate reduction refinancing loan may not exceed the original term of the loan being refinanced by more than 10 years, subject to the maximum term of 30 years and 32 days (e.g., if the old loan was made with a 15-year term, the term of the new loan cannot exceed 25 years);

[(8)] If the veteran whose entitlement was used to obtain the existing VA loan has died, regardless of the cause of death, and the veteran's surviving spouse was a co-obligor, the surviving spouse is considered a veteran for the purpose of refinancing under this program. The surviving spouse must own the property to be refinanced;

[(9)] If the existing loan was assumed by a veteran who substituted his/her entitlement, the veteran transferee may refinance the loan under this program;

[(10)] Refinancing of a VA loan under this program will not preclude restoration of the veteran's entitlement subject to existing requirements.

b. Processing Procedures

(1) Prior-Approval Application []. Since no appraisal or credit underwriting is [] required, and the veteran's eligibility is established by the existence of a previously approved VA loan, no formal application is necessary. Lenders intending to make refinancing loans under this procedure need only submit a written proposal containing the following information:

(a) Full name of the veteran and all other parties obligated on the prior loan and to be obligated on the new loan;

(b) VA loan number and month and year of origination of the loan to be refinanced;

(c) Name and address of lender proposing to make the loan;

(d) Approximate proposed loan amount, interest rate, and term for new loan versus old loan;

(e) Discount to be charged, expressed as a percentage of the loan and a dollar amount;

(f) Statement signed by the veteran acknowledging his or her understanding of the effect of the refinancing loan on the loan payments and interest rate. (The statement must show interest rate and monthly payments for the old loan versus the new loan);

(g) Appropriate certification concerning occupancy signed by the veteran or the spouse of an active-duty service member as follows:

"I have previously occupied the property securing this loan as my home."

(veteran's signature)

or

While my spouse was on active duty and unable to occupy the property securing this loan, I occupied the property securing this loan as my home."

(spouse's signature)

It is the lender's responsibility to assure the accuracy of the information furnished. The written loan proposal must be accompanied by VA Form 26-8937 and the veteran's certificate of eligibility or, if unavailable, a VA Form 26-1880 request for a duplicate certificate. (No evidence of military service need be submitted with VA Form 26-1880 and no other exhibits are required with the loan proposal.)

[(2)] Commitment. After determining that the (a) discount to be charged is reasonable, (b) refinancing loan will result in a reduction in the interest rate (except for an ARM), (c) loan amount and term do not exceed the maximums permitted by law, and (d) debt check indicates no outstanding indebtedness, VA will issue VA Form 26-1866 or 26-1866a for both home and manufactured home and/or lot loans. However, if the existing loan is in serious default, VA will determine the veteran's capability to make the loan payments to preclude approval of a refinancing loan that would be of no real benefit to the interests of either the veteran or the Government. A new loan number will be assigned to the proposed loan.

[(3)] Loan Report. VA Form 26-1820 will be used to report loan closings processed on a prior-approval basis. Evidence of payment of the VA funding fee must be submitted unless the veteran is exempt.

[(4)] Automatic Processing. These loans may be closed on the automatic basis by any VA lender, provided the loan is not in default. [A loan on which 3 or more payments are due] may not be processed on the automatic basis. Such loans must be submitted to VA on the prior approval basis. The loan report for IRRRLs closed on the automatic basis require the following exhibits:

- (a) Lender's cover or transmittal letter (if used);
- (b) VA Form 26-0285, VA Transmittal List (fig. 4.01);
- (c) VA Form 26-0286, VA Loan Summary Sheet (figs. 4.02 and 4.03);
- (d) VA Form 26-8320 (or 26-8320a), Certificate of Eligibility, or a request for a duplicate certificate on VA Form 26-1880, Request for Determination of Eligibility and Available Loan Guaranty Entitlement;
- (e) VA Form 26-8998, Acknowledgment of Receipt of Funding Fee from Mortgagee, or (if applicable) VA Form 26-0500, Notification to Mortgagee of Funding Fee Shortage, and VA Form 26-8999, Acknowledgment of Receipt of Funding Fee Shortage to Mortgagee, or evidence borrower is exempt (see par. 6.07 regarding exemptions);
- (f) A statement signed by the veteran acknowledging the effect of the refinancing loan on the veteran's loan payments and interest rate. (The statement must show the interest rate and monthly payments for the new loan versus that for the old loan);

5.11 How to Underwrite a VA-Guaranteed Loan

VA Underwriting Standards

VA loans involve a veteran's **benefit**. Therefore, lenders are encouraged to make VA loans to all qualified veterans who apply.

VA's underwriting standards are intended to provide **guidelines** for lenders' underwriters as well as VA's underwriters. Underwriting decisions must be based on sound application of the underwriting standards, and underwriters are expected to use good **judgment and flexibility** in applying the guidelines set forth in the following pages.

Basic Requirements

By law, VA may only guarantee a loan when it is possible to determine that the veteran:

- Is a satisfactory credit risk

AND

- Has present and anticipated income that bear a proper relation to the contemplated terms of repayment.

VA's underwriting standards are incorporated into VA regulations at 38 CFR 36.4337 and explained in this section. This section addresses the verifications, procedures, and analysis involved in underwriting a VA-guaranteed loan. It provides **guidance** on how to treat income, debts and obligations, credit history, etc., and how to present and analyze these items on VA's loan analysis form. It does not deal with every possible circumstance that will arise; therefore, underwriters must apply reasonable judgment and flexibility in administering this important veteran's benefit.

Lender Responsibility

Lenders are responsible for:

- Developing all credit information
- Properly obtaining all required verifications and the credit report
- Ensuring the accuracy of all information on which the loan decision is based
- Complying with the law and regulations governing VA's underwriting standards, and with VA's underwriting policies, procedures, and guidelines

AND

- Certifying as to compliance with all of the above.
-

Continued on next page

5.11 How to Underwrite a VA-Guaranteed Loan, Continued

Lender Procedures

Chapter 4 provides loan processing procedures and required loan documents. The procedures below address only the credit **underwriting** of the loan:

Step	Action
1	Initiate the VA and CAIVRS inquiries described in paragraph 5.16.
2	<p>Obtain all necessary verifications.</p> <ul style="list-style-type: none">• The applicant's authorization can be obtained for each verification needed, or on one blanket authorization form (attach a copy of the blanket authorization to each verification requested, including VA Form 26-8937, Verification of VA Benefit-Related Indebtedness).• The credit report and verifications can be ordered by the lender or its agent or a party designated by the lender to perform that function. HOWEVER, these documents must always be delivered by the credit reporting agency or verifying party directly to the lender or its agent, and never to another party.♦ i.e., While a lender may delegate authority for a builder, realtor, or other person to order the report for the lender, the report may not be delivered to such builder, realtor, etc. and may not pass through the hands of any such party or the applicant.
3	<p>Compare similar information received from different sources. For example:</p> <ul style="list-style-type: none">• The number of dependents provided on the URLA, tax returns, credit report, etc. should be the same.• The status of debts provided on the URLA and credit report should be the same. <p>Resolve any discrepancies.</p>
4	<p>Complete VA Form 26-6393, Loan Analysis, in conjunction with a careful review of the loan application and supporting documentation.</p> <ul style="list-style-type: none">• The form is not required for IRRRLs [].
5	<p>Indicate the loan decision in item 50 of the loan analysis after ensuring that the treatment of income, debts, and credit is in compliance with VA underwriting standards.</p>

Continued on next page

5.11 How to Underwrite a VA-Guaranteed Loan, Continued**Lender Procedures** (continued)

Step	Action
6	<p><u>Loans closed by an automatic lender:</u> The underwriter must certify review and approval of the loan by signing item 51 of the loan analysis. (See section 5.18 for Loan Prospector certification.)</p> <ul style="list-style-type: none"> • For nonsupervised automatic lenders, this must be a VA-approved underwriter. <p><u>Prior approval loans:</u> The individual with authority to determine that the loan:</p> <p>(1) Meets VA credit standards; <u>AND</u></p> <p>(2) Should be submitted to VA,</p> <p>Must sign item 51 of the loan analysis.</p>
7	<p>An officer of the lender authorized to execute documents and act on behalf of the lender must complete the following certification:</p> <p>“The undersigned lender certifies that the loan application, all verifications of employment, deposit, and other income and credit verification documents have been processed in compliance with 38 CFR part 36; that all credit reports obtained in connection with the processing of this borrower’s loan application have been provided to VA; that, to the best of the undersigned lender’s knowledge and belief, the loan meets the underwriting standards recited in chapter 37 of title 38 United States Code and 38 CFR part 36; and that all information provided in support of this loan is true, complete and accurate to the best of the undersigned lender’s knowledge and belief.”</p>

**Underwriting
Special Types
of Loans**

The underwriting standards and procedures explained in this chapter apply to these special types of loans **generally**. HOWEVER, some special underwriting considerations also apply and can be found as follows:

Type of Loan	Paragraph
Joint Loans	3.05
Energy Efficient Mortgages (EEMs)	3.17
Graduated Payment Mortgages (GPMs)	5.07
Growing Equity Mortgages (GEMs)	5.08
Loans Involving Temporary Interest Rate Buydowns	5.10
Farm Residence Loans	3.03

Continued on next page

5.11 How to Underwrite a VA-Guaranteed Loan, Continued

Refinancing Loans

While the underwriting standards detailed in this chapter apply to “cash-out” refinances, IRRRLs generally do not require any underwriting.

IRRRLs made to refinance VA loans [3 or more payments past due] must be submitted to VA for prior approval. It must be reasonable to conclude that:

- The circumstances that caused the delinquency have been corrected;

AND

- The veteran can successfully maintain the new loan.
-

5.12 Income

Underwriter’s Objectives

Identify and verify income available to meet:

- The mortgage payment
- Other shelter expenses
- Debts and obligations
- Family living expenses

Evaluate whether verified income is:

- Stable and reliable
 - Anticipated to continue during the foreseeable future
 - Sufficient in amount
-

Importance of Verification

**ONLY VERIFIED INCOME CAN BE CONSIDERED IN
TOTAL EFFECTIVE INCOME**

Income of a Spouse

Verify and treat the income of a spouse who will be **contractually obligated** on the loan the same as the veteran’s income.

To ensure compliance with the Equal Credit Opportunity Act (ECOA), do **not** ask questions about the income of an applicant’s spouse unless:

- The spouse will be contractually liable; **OR**
- The applicant is relying on the spouse’s income to qualify; **OR**

